

June 8, 1978

Admiral Stansfield Turner
Director of Central Intelligence
Washington, D. C. 20505

Dear Stan:

The Military Economic Advisory Panel held its Spring meeting during April 13-16. Our past practice has been to prepare one annual report each year -- usually following the Fall meeting -- but we covered some new ground this session as well as reviewing some old issues. I, therefore, thought it worthwhile to prepare a short statement for you now on the major points addressed at this meeting. A fuller report will be forthcoming at the end of the year.

Your new appointee to the Panel, Dr. Ivan Selin, fortunately was also able to attend this session. Ivan, as you know, brings with him considerable experience and knowledge on the issues we cover, and the Panel as a whole warmly welcomed his addition to our deliberations.

We are now beginning to formulate our thoughts on topics to address at the next Panel session, which is now scheduled for October 26-29. If there are any issues foremost in your mind that you would like for us to consider at that time, please let me know so that I can arrange to see that we give them proper attention.

I hope our attached observations are of service to you.

Warm regards,

Hayne

K. Wayne Smith
Chairman
Military Economic
Advisory Panel

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June 8, 1978

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MEMORANDUM:

SUBJECT: Military Economic Advisory Panel
Meeting of April 13-16, 1978

This memorandum reports on the April meeting of the Military Economic Advisory Panel. It is organized into four sections:

- New issues the Panel has not previously considered before in detail;
- Carryover discussions raised at our last meeting on which we had requested follow-up briefings;
- Brief comments on some basic issues the Panel has had under continuing discussion;
- Concluding comments.

NEW ISSUES

STAT National Intelligence Tasking - [] was kind enough to give us an hour of his time to review his concepts and plans concerning the operations of the NITC. We realize it is still only spring plowing and planting season for [] and his staff, and thus any evaluative comments from us now would be premature. We share with him, however, his belief that more systematic collection planning, with cross-linkages of the costs and benefits of information from photographic, communications, and human sources will be necessary for any overall optimization of collection resources. And we do not underestimate the substantive and procedural difficulties likely to be encountered in structuring and administering a National Center to these ends. Most of the Panel members have had experience in related areas of analysis and have an interest in following [] progress in the NITC. A better understanding of the productivity of collection resources could also help to address the question of the appropriate split of resource flows going to collection versus analysis. The Panel has touched on this issue in the past and still has some concerns about what seems to be an imbalance weighted excessively in favor of collection. With DCI concurrence, we will look more closely at this in 1979.

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STAT Soviet Military Sales to LDCs - Recent press reporting on this issue led the Panel to ask for special briefings on existing and planned Intelligence Community studies of Soviet military sales. Given the heightened interest in the subject in

the Administration and the Congress, the new work undertaken by CIA and DIA was certainly timely, if not overdue. Overall, we applaud the work that has been done to develop more comparability in measures of the scale of U.S. and Soviet military sales, and in the attempts to disaggregate the totals into hardware and support components so that more meaningful comparisons can be made. Methodologically, the approach is sound, although some data deficiencies on the Soviet side outlined to us call for continued attention in both collection and analysis. Also, the lack of a thoroughly defined measure of U.S. sales and deliveries calls for continued caution in drawing policy implications from the studies. This agenda item was of considerable interest, and the Panel hopes to monitor progress at our next session.

Consumer Needs for Intelligence - Consumer needs is an area in which the Panel has had a long standing interest but which we have heretofore kept on the back burner. This is largely because a number of Panel members had had relatively recent experience as consumers themselves and so had felt the issue could be held temporarily in abeyance in the face of problems of more immediate concern. We feel now, however, that we should turn more directly to the issue of how well intelligence is serving the present policymaker. We were pleased to have Drs. Wade and Berenson of the Department of Defense brief us on how they saw the role of intelligence in supporting U.S. arms development and acquisition planning. Their message was that there are numerous near-term U.S. decision points on weapons developments that may take 10 to 15 years to come to fruition where intelligence could play a vital policy support role if future Soviet forces were better understood. However, the analyses necessary are particularly difficult for the Intelligence Community. First, there are both data and analytical shortcomings involved in understanding long run Soviet military R&D objectives. Second, there is understandably a reluctance by the community to project Soviet force compositions and levels beyond the next three to five years. Unfortunately, present U.S. R&D decisions do not fit this restricted time frame. In our view, this problem will never be completely resolved, but could be addressed more fruitfully with more energetic efforts within the NFAC to jointly plan and carry out cooperative research across technological, scientific, political, economic, and military force planning disciplines. OER and OSR -- with inputs from DIA -- have been doing rather well, we think, in joint work over the last two years or so. The other NFAC Offices have so far less successfully been able to input routinely into this work. More on this point in the next paragraph.

CARRYOVER TOPICS FROM THE LAST MEETING

Joint Research Among NFAC Offices - At the last MEAP session, the Panel was briefed by the Director of ORPA on his plans for closer collaboration with OER and OSR to better integrate political intelligence into military economic studies and force projections. We asked for more on this subject at our spring meeting and suggested that OSI and OWI also be heard from on any planning they might be doing along similar lines. We also felt that some link between the MEAP and the DCI's S&T Advisory Panel would perhaps be useful. We did lunch with Dr. Gordon McDonald, Vice Chairman of the STAP, during this session, and the Directors of ORPA, OSI, and OWI or their deputies met with us to talk about their research plans. Overall, we see a greater recognition of the need for a broad matrix approach to research on Soviet military force issues than we see positive steps being taken to accomplish it. One approach raised by the new Director of ORPA seems to have particular merit. In this, for example, each NFAC Office might recruit a visiting scholar who, in his own published research, has actually demonstrated an ability to integrate work across disciplines in imaginative ways. Such scholars, during the time of their residence, could be utilized as team leaders with the regular NFAC Office staffs, both to accomplish useful work in itself as well as to perform vital training of NFAC career personnel for the longer haul. We believe this approach has promise and should be considered favorably by the DCI. It does little, however, to institutionalize a regular transfer of insights among intelligence disciplines and should not be relied on to substitute for the NFAC Office Directors' responsibilities in this regard.

Soviet Energy Problems - Energy specialists of CIA and DIA presented to us their differing views on the seriousness of Soviet petroleum shortfalls that might emerge over the next five years. While the exposition of each view was thoughtful, the Panel was not persuaded that the evidence now available was compelling for either position over the other. We also feel that the issue has so far been addressed with too much reliance on a single discipline -- industrial economics -- and that the range of possible internal Soviet political responses have not been sufficiently considered. We have three suggestions to offer:

- That CIA and DIA prepare written statements of the area of their agreement and disagreement.
- That both also formulate their present expectations concerning how the Soviet energy position will evolve over the next one to two years, including specific expected developments and the

timing of events that would provide evidence bearing significantly on their position.

- That the question of Soviet energy be looked at more closely from the demand side, so that the crucial issue of Soviet political options for management of domestic oil consumption and export can be faced more directly.

This topic is of considerable concern to the Panel -- less because of its direct bearing on a current U.S. policy issue than because of its potential for creating public and press repercussions unfavorable to CIA and the community if intelligence forecasts of Soviet oil production are not very carefully examined, explained and documented.

OLD ISSUES REVISITED

Ruble/Ruble Comparisons of U.S. and Soviet Military Programs - This is a hoary issue with the Panel. The MEAP has, since 1973, alternately coaxed, pleaded, urged, and demanded that such calculations be regularly included in studies that make use of dollar comparisons. We were particularly pleased at this meeting to hear the results of recent DIA work, and we applaud their initiative. CIA/DIA collaboration on data and methods has been good in this area, and we urge its continuation. Methodological refinements underway should be pursued and the findings incorporated into the dollar/dollar comparisons that are published annually, with appropriate caveats as to the technical meaning of the data.

Ruble/Dollar Purchasing Power Comparisons - The briefing OER provided on the Ruble/Dollar ratios was reassuring in that it provided an up-date on continuing basic research that we consider an essential underpinning of the major economic and military-economic estimates of Soviet activity that are produced for use by U.S. policymakers. As past experience has painfully shown, any neglect in this area can have serious consequences for future estimative confidence in comparative measures of U.S. and Soviet resource flows.

Complementary Methodologies - There is no question among the Panel members that the direct costing approach should remain the core of CIA's military-economic estimates. At the same time, however, we have strongly endorsed efforts to complement direct costing studies by alternative gross measures of military outlays developed from budget analysis, economic modeling studies, etc. Such alternative methods aid in ensuring the proper calibration of direct costing, and we continue

to support work in this area. We were briefed on OSR's work during this session, and would like to get more deeply into the matter at our next session.

Economic Modeling - This is another area of basic research on analytical methods that the Panel has recommended and followed with interest over the years, and we were briefed again on it this session. We consider CIA's investment in this area to be well-grounded. Such modeling has potential for wide application in many areas of MEAP interest, such as sensitivity analyses on energy problems, implications of savings from arms control agreements, and testing of future military force projections, as well as in the more conventional aggregative economic trend analyses. No one else inside government has the capability to do such work on the Soviet Union at the level of detail available in CIA, and we consider this a resource of considerable value.

CONCLUDING COMMENTS

This spring meeting of the MEAP was productive in numerous ways. And while we remain somewhat dissatisfied with the progress of joint work among some NFAC Offices in integrating economic, political and S&T analyses, we do understand that this is one of the most difficult problems that exist within the academic community and in the "think tanks" as well. The work calls for rare abilities, and those most able to carry it out are generally already heavily tasked in overall management matters and simply have not the time to spare. As a start, we recommend the visiting scholar approach already discussed -- but we think that institutionalized joint research planning could also be strengthened.

The accomplishment of OER and OSR working together -- along with CIA/DIA collaboration -- are having good payoffs, particularly in data base improvement and in methodological developments. Both the staffs and managers are to be congratulated. Some examples of these payoffs are:

- The data base for military costing studies is vastly improved because of the CIA/DIA Military Costing Review Board and the jointly funded work on Ruble/Dollar ratios.
- Many positive initiatives are being undertaken in areas the Panel has long encouraged. The Ruble/Ruble study and the economic modeling work have both been mentioned. SCAM documentation work has gone well, and we take the nature of the dialogue on Soviet energy problems as evidence of responsible handling of disagreement.

The greater openness of CIA publications on economic and military economic matters has not appeared to open the door to greater demands and criticism as much as many had feared. Indeed, it may have fostered a greater degree of understanding and trust on the part of the press and in academia.

The work we cite positively has taken scarce resources, we realize, but the commitment to such basic matters is critical to advances in the ability of the intelligence community to meet the legitimate expectations of consumers.

We will address some of the issues covered only briefly in this report more fully in our annual report later this year. The Chairman of the Panel will consult with the other members and with the NFAC Office Directors on the scope and content of our fall meeting, and solicits any inputs from the Director, Ambassador Carlucci, Dr. Bowie, [REDACTED], and [REDACTED] on other issues that may be of particular concern to them.

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